FOOTHILLS

Oil & Gas Ltd.

ANNUAL REPORT

DECEMBER 31, 2001

CORPORATE PROFILE

Foothills Oil & Gas Ltd. is a Calgary based, public oil and gas company. It is engaged in the production, acquisition and development of hydrocarbons in Canada. Management is currently pursuing growth through the acquisition of producing properties where it has identified future upside potential. The common shares of the Company are listed for trading on the TSX Venture Exchange (formerly the Canadian Venture Exchange) under the symbol "FH".

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ANNUAL GENERAL MEETING

Shareholders and members of the public who are interested in receiving more information are invited to attend the Company's Annual Meeting to be held at the offices of Macleod Dixon LLP, 3700, 400 - 3rd Avenue S.W., Calgary, Alberta at 9 a.m. on June 11, 2002.

HIGHLIGHTS

		December 31, 2001		December 31, 2000
Production				
Barrels of oil equivalent per day		196		172
Oil and natural gas liquids (barrels per day)		133		98
Sales price (per barrel)		$ 29.27		$ 38.41
Natural gas (thousand cubic feet per day)		629		757
Sales price (per thousand cubic feet)		$ 5.56		$ 4.25
Reserves (barrels of oil equivalent)		1,115,031		1,094,992
Financial				
Revenue (before royalties)	$	2,700,581	$	2,553,435
Cash flow from operations before changes in working capital	$	1,106,245	$	1,274,391
per common share (basic)	$	0.07	$	0.08
Net earnings (loss)	$	294,554	$	597,308
per common share (basic)	$	0.02	$	0.04
Capital expenditures	$	1,792,642	$	910,122
Working capital	$	(197,179)	$	(564,853)
Common shares outstanding (year-end)		16,501,503		15,285,500
Common shares outstanding (weighted average)		15,762,590		15,367,996

REPORT TO SHAREHOLDERS

This Annual Report covers the twelve month period from January 1, 2001 to December 31, 2001.

During the past year, the Company completed its acquisition of Newhouse Resource Management Ltd. Effective April 1, 2001, this acquisition added approximately 20 barrels of oil equivalent of daily production with oil production contributing 75% of the total production. Reserves of 92,000 proven barrels of oil equivalent were also added as a result of this acquisition with all production and reserves located in the Giroux Lake area of west central Alberta.

Additional activity was limited during the balance of the year as commodity prices provided an unstable environment.

Total daily production increased to 196 barrels of oil equivalent, using a 10:1 conversion rate for natural gas, compared to 172 barrels of oil equivalent during 2000. Oil and natural liquids production increased to 133 barrels per day from 98 barrels per day during the previous year. Natural gas was 629 thousand cubic feet per day during 2001 compared to 757 thousand cubic feet during 2000. This overall production increase was a result of the Newhouse acquisition as well as development drilling in the Hayter area conducted during the last half of 2000 and first quarter of 2001.

Commodity prices changed dramatically throughout the past year with high oil and natural gas prices being experienced in the initial months of 2001 and depressed prices for both commodities being seen in the last half of the year and into the first two months of 2002. Significantly improved prices for both oil and natural gas have been realized beginning with March, 2002.

Also during the past year, the Company continued its normal course issuer bid through the facilities of the TSX Venture Exchange. The Company believes that the purchase of its shares at current market prices is a worthwhile investment since recent market prices of the Company do not properly reflect the underlying value of its assets. During the past year, the Company acquired 284,000 shares with an additional 20,000 being acquired up to the end of April, 2002. All shares acquired pursuant to the normal course purchases have been cancelled.

With commodity prices making a significant rebound during recent months, the upcoming year will see the Company continuing to search out and acquire new properties to add to its growing portfolio of assets.

Management, directors and staff look to the upcoming year with enthusiasm.

William J. Kiff
President

OPERATIONS

During the past twelve month period, the Company produced an average 133 barrels of oil and natural gas liquids per day compared to 98 barrels per day during 2000. Natural gas production for the period was 629 thousand cubic feet per day compared to 757 thousand cubic feet per day a year earlier. Revenue for the period increased to $2,700,581 from $2,553,435 in 2000. Cash flow from Operations was $1,106,245 compared to $1,274,391 while the net income for the period was $294,554 from $597,308 a year earlier. The average price received by the Company for its oil and natural gas liquids was $29.27 per barrel compared to $38.41 a year earlier while the average price for natural gas was $5.56 per thousand cubic feet compared to $4.25 a year earlier.

RESERVES

The Company's oil and gas reserves, all located in Canada, were evaluated by Outtrim Szabo and Associates effective January 1, 2002

Total oil and natural gas liquids reserves net to Foothills increased to 684,130 barrels compared to 643,792 barrels a year earlier while total natural gas reserves net to the Company were 4,310,000 thousand cubic feet compared to 4,512,000 thousand cubic. Total reserves were 1,115,030 barrels of oil equivalent (10:1) compared to 1,094,992 a year earlier. Proved reserves account for 86% of the Company's total reserves.

COMPANY WORKING INTEREST RESERVES BEFORE ROYALTIES
as at January 1, 2002

	Crude Oil/NGL (barrels)	Natural Gas (mcf)	Present Value 10% DCF ($)
Proved			
Producing	252,711	744,000	$ 4,218,000
Non-Producing	109,537	3,190,000	$ 7,114,000
Undeveloped	182,025	218,000	$ 929,000
Total Proved	544,273	4,152,000	$12,261,000
Probable	139,857	158,000	$ 875,000
Total	684,130	4,310,000	$13,136,000

MANAGEMENT DISCUSSION AND ANALYSIS

Operations and Financial Conditions

Gross Revenues for the year ending December 31, 2001 were $2,700,581 compared to $2,553,435 for 2000. Royalties (net of Alberta Royalty Tax Credits) for the period were $309,776 or 11.5% of Gross Revenue compared to $322,687 or 12.6% of Gross Revenue for the previous year. Production costs increased to $783,525 compared to $510,410 a year earlier as a result of increased production for the year, prior period adjustments and as a result of detailed inspection and maintenance of operated facilities during the second half of this past year.

General and administrative costs for the period were $286,063 compared to $257,036 in the corresponding period last year. Interest on bank and debenture debt was $214,972 compared to $188,911 a year earlier. Funds from operations for the year were $1,106,245 compared to $1,274,391 for the twelve months of 2000. Net Income for the year was $294,554 compared to $597,308 a year earlier.

Production volumes for the year were 196 barrels of oil equivalent per day compared to 172 barrels of oil equivalent per day in 2000. Oil and natural gas liquids was 133 barrels per day compared to 98 barrels per day in 2000 while natural gas production was 629 thousand cubic feet per day compared to 757 thousand cubic feet per day a year earlier.

Oil and natural gas liquids prices averaged $29.27 per barrel in 2001 compared to $38.41 per barrel in 2000 as oil prices began to drop during the second half of 2001. Natural gas prices averaged $5.56 per thousand cubic feet in the period compared to $4.25 per thousand cubic feet in 2000 although current prices are significantly below the year to date average.

During the year the Company completed its previously announced acquisition of Newhouse Resource Management Ltd., a privately held oil and gas company for net cash consideration of $716,984. The principal asset of this company is a 49% working interest in the Giroux Lake area of west central Alberta. The acquisition added approximately 92,000 barrels of oil equivalent to the Company's reserve base.

Capital Expenditures

During the past year, capital expenditures totaling $1,792,642 were financed from funds from operations and available credit lines. In addition to the expenditures for the acquisition of Newhouse Resource Management Ltd., the balance of the expenditures were used primarily for drilling and for minor workovers.

Liquidity and Capital Resources

At December 31, 2001, the Company had a working capital deficiency of $197,179. The Company expects cash flow from operations to be sufficient to meet obligations as they become due.

Normal Course Issuer Bid

On August 2, 2000 the Company filed with securities regulators a notice of intention to pursue a normal course issuer bid. This bid expired August 13, 2001, and resulted in the purchase of a total of 280,500 shares at an average price of $0.32 per share. In October of 2001, the Company submitted a notice of intention to renew the normal course issuer bid. The Company may purchase for cancellation up to 791,975 of its common shares, representing 5% of the 15,869,500 outstanding commons shares which were outstanding at the date of application, during the 12 month period commencing October 9, 2001 and ending October 8, 2002.

Summary of Securities

The Company is authorized to issue unlimited common shares and unlimited non-voting, first and second preferred shares, issuable in series. The following is a summary of the Class A common shares issued and outstanding:

	Number of Shares	Value ($)
Balance at December 31, 2000	15,285,500	1,892,870
Stock Options Exercised	725,000	74,100
Normal Course Issuer Bid	(284,000)	(35,140)
Flow through Share Issue	775,003	232,501
Share issue cost, net of tax	-	(10,911)
Balance at December 31, 2001	16,501,503	2,153,420

The Company currently has no outstanding preferred shares.

AUDITORS' REPORT

To the Shareholders of Foothills Oil & Gas Ltd.

We have audited the balance sheets of Foothills Oil & Gas Ltd. as at December 31, 2001 and 2000 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Chartered Accountants
Calgary, Canada
April 9, 2002

FOOTHILLS OIL & GAS LTD.
Balance Sheets

As at December 31

	2001	2000
Assets		
Current assets:		
Cash	$ -	$ 6,088
Accounts receivable	464,223	574,765
Prepaid expenses and deposits	104,052	127,634
	568,275	708,487
Property and equipment (note 5)	7,516,734	6,014,857
	$ 8,085,009	$ 6,723,344
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ 39,342	$ -
Accounts payable and accrued liabilities	765,454	1,273,340
Current portion long term debt	516,000	-
	1,320,796	1,273,340
Long-term debt (note 6)	1,484,000	1,220,000
Debentures (note 7)	820,000	820,000
Provision for site restoration and abandonment	49,049	46,377
Future income taxes (note 9)	1,716,002	1,175,268
	5,389,847	4,534,985
Shareholders' equity:		
Share capital (note 8)	2,153,420	1,892,870
Retained earnings	541,742	295,489
	2,695,162	2,188,359
	$ 8,085,009	$ 6,723,344

See accompanying notes to financial statements.

On behalf of the Board:

_________________________ Director

Andy Papadopoulos _________________________ Director

FOOTHILLS OIL & GAS LTD.
Statements of Operations and Retained Earnings

For the years ended December 31

	2001	2000
Revenue:		
Petroleum and natural gas sales	$ 2,700,581	$ 2,553,435
Royalties, net of Alberta Royalty Tax Credit	(309,776)	(322,687)
	2,390,805	2,230,748
Expenses:		
Production	783,525	510,410
General and administrative	286,063	257,036
Long-term debt interest	124,772	98,711
Debenture interest	90,200	90,200
Depletion, depreciation and site restoration	739,398	412,083
	2,023,958	1,368,440
Income before income taxes	366,847	862,308
Future income taxes (note 9)	72,293	265,000
Income for the year	294,554	597,308
Retained earnings (deficit), beginning of year	295,489	(272,419)
Repurchase of shares (note 8)	(48,301)	(29,400)
Retained earnings, end of year	$ 541,742	$ 295,489
Earnings per share (note 8):		
Basic	$ 0.02	$ 0.04
Diluted	$ 0.02	$ 0.04

See accompanying notes to financial statements.

FOOTHILLS OIL & GAS LTD.

Statements of Cash Flows

For the years ended December 31

	2001	2000
Cash provided by (used in):		
Operating:		
Income for the year	$ 294,554	$ 597,308
Items not involving cash:		
Depletion, depreciation and site restoration	739,398	412,083
Future income taxes	72,293	265,000
Funds from operations	1,106,245	1,274,391
Changes in non-cash working capital (note 12)	(343,178)	(232,402)
	763,067	1,041,989
Financing:		
Long-term debt advances	895,000	-
Long-term debt repayments	(115,000)	(100,000)
Issue of shares	306,600	4,000
Redemption of shares	(83,440)	(47,980)
Share issue costs	(19,015)	(4,679)
	984,145	(148,659)
Investing:		
Acquisitions (note 4)	(716,984)	(173,053)
Expenditures on property and equipment	(1,017,232)	(1,422,863)
Changes in non-cash working capital (note 12)	(58,426)	685,794
	(1,792,642)	(910,122)
(Decrease) in cash	(45,430)	(16,792)
Cash, beginning of year	6,088	22,880
(Bank indebtedness) cash, end of year	$ (39,342)	$ 6,088
Funds from operations per share (note 8):		
Basic	$ 0.07	$ 0.08
Diluted	$ 0.07	$ 0.08

See accompanying notes to financial statements.

1. Nature of operations:

Foothills Oil and Gas Ltd. (the "Company") is engaged in the exploration for and production of petroleum and natural gas predominately in Western Canada. The Company was incorporated in September 1993 under the Alberta Business Corporations Act and is listed on the TSX Venture Exchange.

2. Summary of significant accounting policies:

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada.

(a) Property and equipment:

(i) Capitalized costs:

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method all costs related to the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses and costs of drilling both productive and non-productive wells and overhead costs directly related to exploration and development activities. Proceeds from the sale of properties and equipment are applied against capitalized costs, without any gain or loss being realized, unless such sale would alter the rate of depletion and depreciation by more than 20%.

(ii) Depletion and depreciation:

Depletion of petroleum and natural gas properties and depreciation of production equipment, net of estimated salvage or residual value, is provided using the unit-of-production method based upon estimated proven petroleum and natural gas reserves before royalties as determined by independent engineers. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of ten thousand cubic feet of natural gas to one barrel of crude oil.

Office equipment is depreciated over its estimated useful life at declining balance rates between 20% to 30%.

(iii) Ceiling test:

In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of petroleum and natural gas properties and production equipment, net of recorded future income taxes and the accumulated provision for site restoration and abandonment costs, is compared annually to an estimate of future net cash flow from the production of gross proven reserves. Net cash flow is estimated using year end prices, less estimated future general and administrative expenses, financing costs,

2. Significant accounting policies (continued):

estimated future site restoration and abandonment costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against operations as additional depletion and depreciation.

(b) Future site restoration and abandonment costs:

The estimated cost of site restoration is based on the current cost and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. Estimated future site restoration and abandonment costs are accrued on a unit of production basis based on gross proven reserves. The provision is recorded on the statement of operations. Site restoration and abandonment expenditures are charged to the accumulated provision as incurred.

(c) Measurement uncertainty:

The amounts recorded for depletion and depreciation of property and equipment and the provision for site restoration and abandonments and the ceiling test are based on estimates of gross proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they are known.

(d) Joint operations:

Substantially all of the exploration and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(e) Flow-through shares:

The Company financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to subscribers. For accounting purposes, the tax effect of the renouncement is recorded when the corresponding exploration and development expenditures are incurred.

(f) Future income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between the financial reporting and income tax basis of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted.

2. **Significant accounting policies (continued):**

(g) Stock-based compensation plan:

The Company has a stock based compensation plan, which is described in note 8. No compensation expense is recognized for this plan when stock options are issued to employees, directors or consultants. Any consideration received on the exercise of stock options is credited to share capital.

3. **Change in accounting policy**

The Company has retroactively adopted the new Canadian Institute of Chartered Accountants recommendations for per share calculations. The new standard utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding in the money options are used to purchase common shares of the Company at their average market price for the period. The new method was applied retroactively with no impact on the 2000 diluted per share amounts. Previously, the Company utilized the imputed earnings method to calculate diluted per share amounts.

4. **Acquisition of Newhouse Resource Management:**

Effective April 1, 2001, the Company acquired all the issued and outstanding shares of Newhouse Resource Management Ltd. ("Newhouse"), a private oil and gas corporation for total cash consideration of $785,379, including $62,293 of acquisition costs. Effective April 1, 2001 all the assets and liabilities of Newhouse were assigned to the Company. Effective June 20, 2001 the Company and Newhouse were amalgamated. The acquisition has been accounted for by the purchase method of accounting as follows:

Cash	$ 68,395
Non-cash working capital	(27,842)
Property and equipment	1,221,372
Future tax liability	(476,546)
	785,379
Less cash acquired	(68,395)
Cash expenditure	**$ 716,984**

5. **Property and equipment:**

2001	Cost	Accumulated depletion, and depreciation	Net book value
Petroleum and natural gas properties	$ 9,495,778	$ 1,992,300	$ 7,503,478
Office equipment	65,637	52,381	13,256
	$ 9,561,415	$ 2,044,681	$ 7,516,734
2000			
Petroleum and natural gas properties	$ 7,284,616	$ 1,293,100	$ 5,991,516
Office equipment	65,424	42,083	23,341
	$ 7,350,040	$ 1,335,183	$ 6,014,857

During 2001 the Company capitalized general and administrative costs directly related to exploration and development activities in the amount of $175,316 (2000 - $181,209).

At December 31, 2001, petroleum and natural gas properties include $173,942 (2000 – $231,923) relating to undeveloped properties which have been excluded from the depletion calculation.

At December 31, 2001 total future site restoration and abandonment costs are estimated to be $430,866. The Company incurred $27,228 (2000 - $19,523) of actual abandonment expenditures during the year.

6. **Long-term debt:**

The Company has a $2.3 million revolving term credit facility at an interest rate of prime plus 3/4%. As at December 31, 2001, the facility amount available was $2,300,000 of which $2,000,000 (2000 - $1,220,000) had been drawn. The available facility amount began reducing by $68,000 per month on January 1, 2002. Security on this facility is a $5.0 million fixed and floating charge debenture over all the Company's assets. During 2001, interest in the amount of $124,772 (2000 - $98,711) was paid for this facility.

7. **Debentures:**

At December 31, 2001, the Company has 11% interest bearing debentures in the amount of $820,000. The debenture holders have the right to convert the debenture to common shares of the Company based on the following conversion prices:

May 28, 2001 to May 27, 2002	$	0.35
May 28, 2002 to May 27, 2003		0.40
May 28, 2003 to May 27, 2004		0.50

7. **Debentures (continued):**

The Company has the option to redeem these debentures up to May 19, 2004 in the event that the current market prices exceeds the above noted conversion prices by at least 20% based on the weighted average price per share for common shares for 20 consecutive trading days.

During 2001, interest in the amount of $90,200 (2000 - $90,200) was paid on these debentures.

8. **Share capital:**

(a) Authorized:

Unlimited common shares without par value

Unlimited non-voting, first and second preferred shares, issuable in series

(b) Common shares issued:

	Number of Shares	Amount
Balance, December 31, 1999	15,395,000	$1,910,041
Issued pursuant to:		
Stock options exercised	40,000	4,000
Normal course issuer bid	(149,500)	(18,580)
Share issue costs (net of tax of $2,088)	–	(2,591)
Balance, December 31, 2000	**15,285,500**	**1,892,870**
Issued pursuant to:		
Stock options exercised	**725,000**	**74,100**
Flow through share issue (i)	**775,003**	**232,501**
Normal course issuer bid (ii)	**(284,000)**	**(35,140)**
Share issue costs (net of tax of $8,104)	–	**(10,911)**
Balance, December 31, 2001	**16,501,503**	**$ 2,153,420**

(i) During 2001, 775,003 flow-through common shares were issued at $0.30 per share for gross proceeds of $232,501. At December 31, 2001, the full amount was renounced to the investors and the Company has until December 31, 2002 to incur the expenditures. The tax benefits foregone will be recorded in the financial statements as the expenditures are incurred.

(ii) Pursuant to normal course issuer bids, 284,000 common shares were repurchased in the market at an average price of $0.29 per common share. The excess of the purchase price over the average stated share capital value in the amount of $48,301 has been charged to retained earnings.

(c) Options outstanding:

The Company has a stock option plan, which is administered by the Board of Directors in which up to 10% of the issued common shares are reserved for issuance pursuant to this plan. The options vest

immediately and expire the earlier of five years from date of grant or three months from the date from which the optionee ceases to be director, officer, employee or consultant of the Company.

8. Share capital (continued):

The following is a continuity of stock options outstanding for which shares have been reserved:

	December 31, 2001 Number of options		2001 Average exercise price	December 31, 2000 Number of options		2000 Average exercise price
Stock options outstanding, beginning of year	1,495,000	$	0.17	1,435,000	$	0.16
Granted	-		-	100,000		0.30
Exercised	(725,000)		0.10	(40,000)		0.10
Stock options outstanding, end of year	770,000	$	0.23	1,495,000	$	0.17

The following table summarizes information about stock options outstanding as at December 31, 2001 and 2000:

Exercise Price	Number Outstanding at December 31, 2001	Weighted-Average Remaining Contractual Life	Number Exercisable at December 31, 2001	Weighted-Average Exercise Price
0.21	265,000	2.50 years	265,000	0.21
0.22	230,000	0.92 years	230,000	0.22
0.24	175,000	1.33 years	175,000	0.24
0.30	100,000	3.88 years	100,000	0.30
	770,000	1.94 years	770,000	$ 0.23

Exercise Price	Number Outstanding at December 31, 2000	Weighted-Average Remaining Contractual Life	Number Exercisable at December 31, 2000	Weighted-Average Exercise Price
$ 0.10	685,000	0.17 years	685,000	$ 0.10
0.14	40,000	0.75 years	40,000	0.14
0.21	265,000	3.50 years	265,000	0.21
0.22	230,000	1.92 years	230,000	0.22
0.24	175,000	2.33 years	175,000	0.24
0.30	100,000	4.88 years	100,000	0.30
	1,495,000	1.61 years	1,495,000	$ 0.17

(d) Per share amounts:

Per common share calculations are based on the basic weighted average number of common shares outstanding during the year of 15,762,590 (2000 – 15,367,996) and the diluted weighted average number of 15,938,424 (2000 – 16,762,996).

9. Income taxes:

The provision for income taxes reflects an effective rate which differs from the expected income tax rate of 42.62% (2000 – 44.62%). The primary differences are as follows:

	2001	2000
Income before income taxes	$ 366,847	$ 862,308
Expected tax at combined federal and provincial statutory tax rates	156,350	384,762
Crown charges	59,150	72,167
Resource allowance	(105,956)	(141,155)
Effect of provincial tax rate reduction	(61,677)	-
Other	24,426	(50,774)
	$ 72,293	$ 265,000

The components of the net future income tax liability at December 31, 2001 and 2000 are:

	2001	2000
Future income tax liabilities:		
Property and equipment	$ (1,873,783)	$(1,365,712)
Future income tax assets:		
Non-capital loss carryforwards	-	40,347
Future site restoration	20,905	20,693
Share issue costs	9,919	9,358
Other	126,957	120,046
Net future income tax liability	$(1,716,002)	$(1,175,268)

At December 31, 2001, the Company has the following estimated tax pools available for deduction against future taxable income:

Canadian oil and gas property expense	$ 1,500,000
Canadian development expense	875,000
Canadian exploration expense	140,000
Undepreciated capital cost	375,000
Share issuance costs	23,000

10. Commitment:

The Company has future lease obligations for office premises at a base cost of $26,000 per annum until 2006.

11. Financial instruments:

a) Fair values of financial assets and liabilities

Financial instruments of the Company consist of cash and cash equivalents, accounts receivable, and accounts payable, accrued liabilities, long term debt and debentures. As at December 31, 2001 and 2000 there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values. The Company has not entered into any hedging contracts.

b) Credit Risk

The majority of the Company's accounts receivable are in respect of oil and natural gas operations. The Company generally extends unsecured credit to these customers, and therefore, the collection of accounts receivables may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any material credit loss in the collection of receivables in the past.

12. Change in non-cash working capital

		2001		2000
Accounts receivable	**$**	**110,542**	$	(303,600)
Accounts payable		**(507,886)**		772,769
Prepaid expenses		**23,582**		(15,777)
Working capital acquired from Newhouse		**(27,842)**		-
	$	**(401,604)**	$	453,392

The changes in non-cash working capital have been allocated to the following activities:

Operating	$	**(343,178)**	$	(232,402)
Investing	$	**(58,426)**	$	685,794

CORPORATE INFORMATION

DIRECTORS

Kevin A. Kelly
Independent Businessman
Nassau, Bahamas

William J. Kiff
President of the Company
Calgary, Alberta

Susan J. McArthur
President, McArthur & Associates
Toronto, Ontario

Raymond A. Siwiec
President, First Canadian Energy Ltd.
Calgary, Alberta

Andy Papadopoulos
President, BIS Technology Inc.
Calgary, Alberta

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OFFICERS

William J. Kiff
President

Charles W. Berard
Corporate Secretary

Wayne D. Fast
Vice President

Brenda F. Galonski
Controller

SOLICITORS

Macleod Dixon LLP
Calgary, Alberta

AUDITORS

Meyers Norris Penny
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Symbol: FH

Abbreviations

bbl	barrels
boe	barrels of oil equivalent
mcf	thousands of cubic feet
ARTC	Alberta Royalty Tax Credit

FOOTHILLS
OIL & GAS LTD.

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